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Korea, Republic of

Cotton and Products

Annual

2002

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Report Highlights:

In 2002 an expanding economy coupled with national elections and Korea's hosting of FIFA World Cup events is driving rising domestic demand for cotton-based products. Lingering economic weakness in traditional overseas markets, on the other hand, dampens export prospects. U.S. upland cottons market share remains strong, but likely to weaken due to stickiness problems with 2001 crop cottons.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
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SECTION I. SITUATION AND OUTLOOK

General Economic Situation and Outlook

For 2002, the Korean economy is projected to expand by 5 percent. Internal demand is expected to drive the economy as export markets remain stagnant. Inflation is projected at a modest 3 percent with unemployment stable at 3.5 percent.

First quarter 2002 economic data reveals the economy grew at a 5.7 percent clip explained by rapidly expanding domestic consumption and private spending driven by easing credit, lower interest rates, and rising asset value (stock and real estate market). Those three factors will play key roles in the country's economic picture throughout the year as local and national elections will be held in the second half of 2002. The country's hosting of the FIFA World Cup Games in June is expected to spur economic performance in most sectors through the 2nd quarter. Ongoing labor issues, rising crude oil prices and an uncertain global economic situation should temper economic growth somewhat.

Cotton Situation and Outlook

The cotton industry's 1st quarter performance shows an improvement in most sectors on the year-on-year basis, reflecting the favorable economic situation now embracing the country. Spinning mills are operating at 90 percent capacities, stocks are decreasing, cotton yarn production is higher than other spun yarn products, and trade in all cotton products are on the increase. With the slow recovery of world demand for cotton yarn, the industry is expected to focus more on local rather than foreign markets for the near term.

Cheap cotton products from Pakistan and China are forcing spinners to lower the trade price for local cotton yarn and thus affecting spinner industry profitability. In an effort to enhance the price competitiveness of local products and to enhance the efficiency of operation, member companies of Spinners & Weavers Association of Korea (SWAK) have engaged in a six-month trial program to purchase materials and tools (such as polyester SF, con, boxes) jointly via B2B commerce. The industry estimate cost savings could accrue to 10-20 percent against traditional individual off-line purchasing.

Without any government program the spinning industry restructuring process should progress slowly. This year the spinning industry is expected to dismantle a total of 208 outdated spindles and 98 outdated looms. It is estimated that 50 percent of Korean spinning facilities is older than 21 years of age with no major investment in new facilities anticipated this year. Part of the industry's restructuring program in recent years was to transfer outdated equipment to overseas market. As there have been no secured markets overseas in recent years due to the economic slowdown, foreign investment by Korean spinners has been at a standstill. Undermining the restructuring program is the finding that imported Korean products made in overseas markets is weakening profitability in the local spinning industry. Currently, Korea's foreign spinning facility investment stands at: 11 companies with 22 mills in eight countries operating 1.18 million spindles and 4,549 looms. Korean firms have major investments in the following countries: China, India, Indonesia, Vietnam, Uzbekistan.

During MY 2001/02, consumption of raw cotton is expected to rebound from the decline witnessed the previous year as a result of the expanding Korean economy. Special demand for cotton products, primarily sports wear clothing as people appear in sports-look or worldcup fashion, is expected with the country's hosting of the FIFA

World Cup Games. The MY 2002/03 raw cotton consumption forecast is for constant or a slight increase depending on economic improvements in the U.S. and Japan, both large markets for textile products.

For MY 2002/03, raw cotton import trade volume also is forecast to remain constant or slightly increase as higher domestic use is expected to be offset by a decline in exports of cotton yarn. U.S. upland cotton market shares are expected to decline as local spinners turn more to Australia and Uzbekistan after experiencing a stickiness problem with the U.S. MY 2001/02 cotton.

MY 2001/02 cotton yarn export is forecast to remain constant or decline slightly regardless of first quarter 2002 export data showing higher year-over-year trade for the same period and an uptake in buy orders from foreign companies who abandoned the market after the September 11 incident. Such industry expectations are founded on several concerns. The global economy's recovery after the September 11 incident is slow. The competitiveness of Korean cotton products is deteriorating due to a rapidly appreciating Korean won vis-a-vis the U.S. dollar. The local currency has appreciation 8 percent over the past two months. The unforeseen impact China's entry into the WTO will have on world markets. The textile quota system is to be abolished by 2005. The US and Vietnam are normalizing trade relations.

Korea's FY 2001 GSM-102 credit guarantee program for cotton is set at US\$190 million. As of May 22, U.S. cotton sales registered under the program totaled only US\$59 million. The GSM program's attractiveness is waning as funds are available at competitive rates in the current market environment. Currently, local bankers provide USANCE (local financing) at Libor plus 0.45 percent, while GSM credit is offered at Libor plus 0.08 percent. The benefit of the 0.4 percent lower interest charge is offset by the 0.38 percent GSM guarantee fee.

On July 1 the applied raw cotton tariff was lowered from 0.5 percent to zero. The government lowered the applied tariff in return for the spinning industry's withdrawal of an antidumping claim it filed last year against imported yarn. The Ministry of Finance and Economy reviews the applied tariff for all commodities each year in the fall. Note: Korea's WTO bound tariff rate commitment for raw cotton is at 3.6 percent for 2002. This bound rate is superseded by the applied tariff, if lower.

On January 1, 2002, under terms of its Bangkok Agreement with China, Korea lowered the applied tariff for a certain category of finished cotton products imported from China from 13 percent of basic (MFN) rate to 8.1 percent of concession rate. The Bangkok Agreement aims to promote economic development through trade liberalization among developing member countries in Asia and Pacific. The Agreement calls for concession tariff rates to be preferentially applied over the most-favored nation rates. Affected products are mostly cotton garments and apparel for women and babies, which compose more than 10 percent of Korea's total imports of cotton garments and apparels. The 1st quarter import of garments and apparels for women and babies show 170 percent growth compared to the same year earlier period, while that for all finished cotton products show 40 percent growth. During the past year, China has supplied about 90 percent of Korean imports of cotton garments and apparels for women and babies. The fast increase in cotton apparel should require less demand for local cotton yarns, and consequently, reduce consumption of raw cotton.

The antidumping issue ended on June 22, 2001, after six months of intense negotiations between the spinning and apparel industries. The government, SWAK, and apparel association agreed that a measure such as a tariff rate quota or adjustment tariff is applied when imports increase rapidly and the business performance of the spinning industry is negatively affected.

When the Cartagena Protocol is ratified, possibly early next year, the Korean law implementing the Protocol - The Living Modified Organism Law, will go into effect (See Gains report KS 1029). The vagueness of Law's language and the lack of a cohesive government policy on the issue of biotechnology, raises concern as to the how and to what degree of a product's processing the Ministry of Commerce, Industry and Energy would require biotech labeling. At minimum, biotech enhanced cotton seeds would be required import approval.

SECTION II. STATISTICAL TABLES**PS&D for Total Cotton**

PSD Table						
Country	Korea, Republic of					
Commodity	Cotton				(HECTARES)(MT)	
	Revised	2000	Preliminary	2001	Forecast	2002
	Old	New	Old	New	Old	New
Market Year Begin		08/2000		08/2001		08/2002
Area Planted	0	0	0	0	0	0
Area Harvested	1000	0	1000	0	0	0
Beginning Stocks	93840	89162	84478	79900	91227	82900
Production	218	0	218	0	0	0
Imports	309172	309493	359249	340000	0	345000
TOTAL SUPPLY	403230	398655	443945	419900	91227	427900
Exports	3048	3137	4355	5000	0	5000
USE Dom. Consumption	315704	315618	348362	332000	0	337000
Loss Dom. Consumption	0	0	0	0	0	0
TOTAL Dom. Consumption	315704	315618	348362	332000	0	337000
Ending Stocks	84478	79900	91227	82900	0	85900
TOTAL DISTRIBUTION	403230	398655	443944	419900	0	427900

PSD Table						
Country	Korea, Republic of					
Commodity	Cotton				(HECTARES)(BALE)	
	Revised	2000	Preliminary	2001	Forecast	2002
	Old	New	Old	New	Old	New
Market Year Begin		08/2000		08/2001		08/2002
Area Planted	0	0	0	0	0	0
Area Harvested	0	0	0	0	0	0
Beginning Stocks	413766	393139	372486	352301	402244	365528
Production	961	0	961	0	0	0
Imports	1363222	1364638	1584025	1499151	0	1521198
TOTAL SUPPLY	1777949	1757777	1957473	1851452	402244	1886726
Exports	13439	13832	19202	22046	0	22046
USE Dom. Consumption	1392024	1391644	1536022	1463877	0	1485923
Loss Dom. Consumption	0	0	0	0	0	0
TOTAL Dom. Consumption	1392024	1391644	1536022	1463877	0	1485923
Ending Stocks	372486	352301	402244	365528	0	378756
TOTAL DISTRIBUTION	1777949	1757777	1957468	1851452	0	1886726

TRADE MATRIX**Korea: Total Imports of Raw Cotton for MY 00/01 & MY 01/02**

MY 00/01				MY 01/02 (Aug. - Mar.)			
Country	\$1000	MT	Mkt Shr	Country	\$1000	MT	Mkt Shr
U.S.A	146,394	105,933	34%	U.S.A	106,335	90,582	40%
AUSTRALIA	100,041	72,121	23%	AUSTRALIA	75,788	60,038	26%
UZBEKISTAN	77,640	58,250	19%	UZBEKISTAN	49,952	44,196	19%
PR.CHINA	63,467	49,782	16%	PR.CHINA	8,162	6,865	3%
RUSSIA	11,291	4,840	2%	MALI	5,111	3,834	2%
MALI	8,266	6,359	2%	RUSSIA	4,170	3,496	2%
EGYPT	6,738	5,102	2%	EGYPT	6,600	3,110	1%
PAKISTAN	3,502	3,122	1%	TURKMENISTAN	3,013	2,537	1%
BURKINA FASO	1,063	790	0%	COTE D'IVOIRE	3,045	2,499	1%
Other	4,133	3,195	1%	Other	12,429	11,093	5%
Total	422,535	309,493	100%	Total	274,605	228,250	100%

Source: Korea Trade Information Services

Korea: Imports of ELS Cotton for MY 00/01 & MY 01/02

MY 00/01				MY 01/02 (Aug. - Mar.)			
Country	\$1000	MT	Mkt Shr	Country	\$1000	MT	Mkt Shr
U.S.A	11,351	5,026	92%	U.S.A	5,977	3,748	75%
RUSSIA	538	239	4%	EGYPT	1,444	667	13%
EGYPT	289	118	2%	PR.CHINA	419	236	5%
PR.CHINA	72	51	1%	KYRGYZSTAN	169	121	2%
SPAIN	1	0	0%	AUSTRALIA	169	85	2%
				BRAZIL	64	80	2%
				RUSSIA	134	60	1%
Total	12,251	5,434	100%	Total	8,376	4,996	100%

Source: Korea Trade Information Services

Korea: Imports of Upland Cotton for MY 00/01 & MY 01/02

MY 00/01				MY 01/02 (Aug. - Mar.)			
Country	\$1000	MT	Mkt Shr	Country	\$1000	MT	Mkt Shr
U.S.A	135,043	100,907	33%	U.S.A	106,335	90,582	40%
AUSTRALIA	100,041	72,121	24%	AUSTRALIA	75,788	60,038	26%
UZBEKISTAN	77,640	58,250	19%	UZBEKISTAN	49,952	44,196	19%
PR.CHINA	63,395	49,731	16%	PR.CHINA	8,162	6,865	3%
RUSSIA	10,753	4,601	2%	MALI	5,111	3,834	2%
MALI	8,266	6,359	2%	RUSSIA	4,170	3,496	2%
EGYPT	6,449	4,984	2%	EGYPT	6,600	3,110	1%
PAKISTAN	3,502	3,122	1%	TURKMENISTAN	3,013	2,537	1%
BURKINA FASO	1,063	790	0%	COTE D'IVOIRE	3,045	2,499	1%
Other	4,132	3,194	1%	Other	12,429	11,093	5%
Total	410,284	304,059	100%	Total	274,605	228,250	100%

Source: Korea Trade Information Services

Korea: Exports of Raw Cotton for MY 00/01 & MY 01/02

MY 00/01				MY 01/02 (Aug. - Mar.)			
Country	\$1000	MT	Mkt Shr	Country	\$1000	MT	Mkt Shr
SRI LANKA	2,937	2,181	70%	SRI LANKA	182	166	37%
VIET NAM	509	341	11%	VIET NAM	175	121	27%
GERMANY	311	247	8%	PR.CHINA	319	51	11%
PR.CHINA	446	132	4%	JAPAN	74	48	11%
ITALY	156	124	4%	ITALY	55	43	10%
THAILAND	137	101	3%	U.A.E.	27	21	5%
JAPAN	19	10	0%	PHILIPPINES	4	1	0%
GUATEMALA	22	1	0%	MEXICO	3	1	0%
Other	2	0	0%				
Total	4,539	3,137	100%	Total	839	453	100%

Source: Korea Trade Information Services

Korea: Imports of Cotton Yarn for CY 2001 & 2002

	CY 2001			CY 2002 (Jan-Mar)		
Country	\$1000	MT	Mkt Shr	\$1000	MT	Mkt Shr
INDIA	205,709	79,037	37%	52,751	23,305	38%
PAKISTAN	180,355	91,609	43%	43,686	26,028	43%
INDONESIA	37,614	15,139	7%	7,912	3,669	6%
PR.CHINA	26,657	9,664	5%	6,739	2,739	5%
THAILAND	9,499	3,421	2%	3,819	1,702	3%
UZBEKISTAN	17,995	9,346	4%	2,741	1,703	3%
EGYPT	8,416	1,308	1%	2,346	378	1%
ITALY	3,648	217	0%	1,224	77	0%
VIET NAM	4,003	2,106	1%	646	393	1%
U.S.A	657	236	0%	88	22	0%
Other	14,355	1,803	1%	4,555	600	1%
Total	508,908	213,887	100%	126,507	60,615	100%

Source: Korea Trade Information Services

Korea: Imports of Cotton Fabric for CY 2001 & 2002

	CY 2001			CY 2002 (Jan-Mar)		
Country	\$1000	MT	Mkt Shr	\$1000	MT	Mkt Shr
PAKISTAN	180,355	91,609	43%	43,686	26,028	43%
INDIA	205,709	79,037	37%	52,751	23,305	38%
INDONESIA	37,614	15,139	7%	7,912	3,669	6%
PR.CHINA	26,657	9,664	5%	6,739	2,739	5%
UZBEKISTAN	17,995	9,346	4%	2,741	1,703	3%
THAILAND	9,499	3,421	2%	3,819	1,702	3%
VIET NAM	4,003	2,106	1%	646	393	1%
EGYPT	8,416	1,308	1%	2,346	378	1%
U.S.A	657	236	0%	88	22	0%
ITALY	3,648	217	0%	1,224	77	0%
Other	14,355	1,803	1%	4,555	600	1%
Total	508,908	213,887	100%	126,507	60,615	100%

Source: Korea Trade Information Services

Korea: Exports of Cotton Yarn for CY 2001 & 2002

Country	CY 2001			CY 2002 (Jan-Mar)		
	\$1000	MT	Mkt Shr	\$1000	MT	Mkt Shr
HONG KONG	46,769	10,319	38%	12,648	2,638	33%
PR.CHINA	12,804	4,041	15%	4,161	1,549	19%
JAPAN	8,202	2,750	10%	1,935	694	9%
SINGAPORE	4,808	1,388	5%	1,698	477	6%
HONDURAS	2,775	1,016	4%	786	370	5%
THAILAND	3,663	838	3%	1,028	234	3%
U.S.A	2,345	737	3%	802	285	4%
SRI LANKA	3,826	717	3%	1,147	220	3%
AUSTRALIA	3,163	706	3%	220	32	0%
Other	21,832	4,984	18%	6,126	1,615	20%
Total	110,187	27,495	100%	30,551	8,113	100%

Source: Korea Trade Information Services

Korea: Exports of Cotton Fabric for CY 2001 & 2002

Country	CY 2001			CY 2002 (Jan-Mar)		
	\$1000	MT	Mkt Shr	\$1000	MT	Mkt Shr
U.S.A	83,796	8,724	21%	21,802	2,392	23%
PR.CHINA	54,125	7,583	18%	12,381	1,643	16%
INDONESIA	22,263	4,319	10%	6,708	1,053	10%
HONG KONG	27,076	2,499	6%	7,598	695	7%
AFGHANISTAN	6,380	1,656	4%	1,332	396	4%
VIET NAM	10,858	1,488	4%	3,736	492	5%
SRI LANKA	8,170	1,088	3%	1,802	265	3%
DOMINICAN REP.	7,486	828	2%	838	91	1%
PHILIPPINES	5,651	531	1%	1,982	187	2%
JAPAN	7,104	520	1%	2,693	202	2%
Other	96,915	13,078	31%	21,585	3,138	30%
Total	329,824	42,314	100%	82,457	10,555	100%

Source: Korea Trade Information Services

Korea: Imports and Exports of Cotton Apparel

	Product	CY 2000		CY 2001		2002 (Jan-Mar)	
		MT	\$Mil.	MT	\$Mil.	MT	\$Mil.
Import	Knit	12,498	133	17,901	178	6,182	76
	Fabric	28,303	267	37,842	336	10,494	108
	Total	40,801	400	55,743	514	16,676	184
	Growth	94.1%	86.5%	36.6%	28.5%	39.6%	35.4%
Export	Knit	60,571	1,029	57,488	940	11,798	198
	Fabric	14,194	288	16,149	271	4,213	77
	Total	74,765	1,317	73,637	1,211	16,011	275
	Growth	5.4%	1.6%	-1.5%	-8.0%	-1.9%	-1.9%

Source: Spinners & Weavers Association of Korea (SWAK)

Korea: Most Recent Import Trend for the Cotton Products affected by the China's Entry into Bangkok Agreement

HS Code	Cotton Products 1/	CY 2001 Imports		Imports from China (Unit in MT)		
		Total (MT)	China (MT)	1st Q'tr, 2001	1st Q'tr, 2002	Growth
6202.12	Womens overcoats	195	154	20	62	214%
6202.92	Womens anoraks, wind-jacket	94	91	22	33	51%
6204.12	Womens suits	74	60	4	48	1092%
6204.22	Womens ensembles	21	20	5	32	536%
6204.32	Womens jackets	321	257	40	174	334%
6204.42	Womens dresses	164	123	25	34	34%
6204.52	Womens skirts	181	142	38	72	91%
6204.62	Womens trousers	3,426	3,132	506	1,613	219%
6206.30	Womens blouses	1,045	951	239	484	103%
6209.20	Babies garments	419	378	59	61	4%
	Total	5,939	5,308	958	2,613	173%

Note:

1/ Tariffs for the listed products from China are lowered from 13% to 8.1% as of January 1, 2002.

Source: Korea Trade Information Services

PRICES**Korea: Average Monthly Import Price for Raw Cotton**

(U.S. Cents/Pound)

YEAR	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
1996	93	94	94	96	96	95	96	93	90	90	88	86
1997	87	87	87	86	85	84	79	82	82	85	84	83
1998	84	83	82	79	79	76	76	76	76	78	76	75
1999	73	71	70	68	67	65	66	66	65	64	61	59
2000	58	57	56	57	57	58	58	58	58	59	61	63
2001	63	65	65	64	64	60	61	59	58	57	56	53
2002	52	51	50	12%	12%	3%	5%	2%	0%	-3%	-8%	-16%
Change	-17%	-22%	-23%									

Source: Korea Trade Information Services

Korea: Price of Cotton Yarn for Export and Local Trade

(Unit: \$USD/Bale)

Product	Direct (FOB)				Local Trade				FX rate (W/\$)
	CD30	CD40	CM30	CM40	CD30	CD40	CM30	CM40	
Dec. 1998	520	590	620	650	560	640	670	740	1210
Dec. 1999	490	550	570	600	550	640	730	540	1142
Dec. 2000	-	-	510	550	510	590	540	650	1256
Sep. 2001	-	-	480	520	480	550	510	600	1296
Dec. 2001	-	-	430	480	450	530	470	560	1329
May 2002	-	-	430	480	440	520	460	550	1262

Source: Spinners & Weavers Association of Korea (SWAK)

PRODUCTION**Korea: Spun Yarn Production 1/ (Unit in MT)**

Year	Cotton Yarn	Cotton Blended	MMF 2/	Total	Growth
1996	198,268	103,177	32,868	334,313	-10.0%
1997	182,977	64,200	22,819	269,997	-19.2%
1998	168,705	58,118	22,636	249,459	-7.6%
1999	190,294	57,871	27,429	275,594	10.5%
2000	182,357	56,921	29,230	268,508	-2.6%
2001	191,826	45,376	24,601	261,803	-2.5%
Change	5.2%	-20.3%	-15.8%	-2.5%	
2002(Jan-Mar)	50,797	8,694	5,608	65,099	4.2%
Change	15.2%	-27.4%	-12.4%	4.2%	

Note:

1/ Member companies account for approximately 85 percent of total cotton consumption.

2/ Man-made Fiber (MMF)

Source: Spinners & Weavers Association of Korea (SWAK)

Korea: Fabric Production by SWAK Member Companies 1/

(Unit in 1000 Square meters)

Year	Cotton Fabric	Cotton Blended	MMF 2/	Total	Growth
1996	177,073	89,331	77,309	343,713	-11.7%
1997	140,919	82,983	58,622	282,524	-17.8%
1998	104,558	58,183	47,346	210,087	-25.6%
1999	127,101	88,540	46,560	262,201	24.8%
2000	107,483	70,941	46,046	224,470	-14.4%
2001	97,749	61,134	30,830	189,794	-15.4%
Change	-15.4%	19.9%	1.1%	14.4%	
2002 (Jan-Mar)	23,863	13,626	6,870	44,360	-11.6%
Change	-6.5%	-14.8%	-20.6%	-11.6%	

Note:

1/ Member companies account for approximately 85 percent of total cotton consumption.

2/ Man-made Fiber (MMF)

Source: Spinners & Weavers Association of Korea (SWAK)

CONSUMPTION**Korea: Raw Material Consumption by SWAK Member Companies 1/ (Unit in MT)**

Year	Raw Cotton	Rayon&Acet	Polyester	Other	Total
1995	327,046	26,749	70,072	12,296	436,163
1996	303,883	23,024	59,146	8,835	394,888
1997	267,199	16,959	36,989	2,686	323,833
1998	244,296	17,169	33,537	2,621	297,623
1999	275,113	21,274	32,777	4,041	333,205
2000	267,496	23,289	33,201	2,925	326,911
2001	270,678	18,213	24,121	3,067	316,079
Change	1.2%	-21.8%	-27.3%	4.9%	-3.3%
2002 (Jan-Mar)	68,859	3,920	4,437	943	78,159
Change	5.8%	-26.3%	-24.6%	31.4%	1.7%

Note:

1/ The Spinners & Weavers Association of Korea (SWAK) member companies account for approximately 85 percent of total cotton consumption.

Source: Spinners & Weavers Association of Korea (SWAK)

Korea : Number of Spindles/Looms owned by SWAK member Companies

	1996	1997	1998	1999	2000	2001	2002 (est)
Spindles ('000)	2,412	2,335	2,271	2,200	2,119	2,040	1,832
Looms	7,483	4,526	3,482	2,469	2,300	1,810	1,712

Source: Spinners & Weavers Association of Korea (SWAK)

Korea: Offshore Cotton Facilities as of October 2001

Country	Number of Spindles	Number of Looms
China	244,712	392
Vietnam	187,572	2,061
Indonesia	16,960	0
India	104,646	0
Sri Lanka	100,000	558
Uzbekistan	329,340	346
Tadzhikistan	35,952	243
Egypt	163,984	949
Total	1,183,166	4,549

Source: Spinners & Weavers Association of Korea (SWAK)

Korea: Tariff Rates for Cotton Products

(Unit % imposed on CIF value)				
	Current Applying Tariff Rates	Bound Tariff under WTO Commitments		
	2002	2002	2003	2004
Raw cotton 1/	0%	3.6%	2.8%	2%
Cotton yarn 2/	2%	14.4%	13.7%	13%
Cotton fabric 3/	14%	16.4%	14.7%	13%

Note:

1/ a quota tariff rate is currently being applied with unlimited quota amount.

2/ a quota tariff rate is currently being applied for 40,000 MT of low count cotton yarn, for other cotton yarn a basic tariff rate of 8% is currently being applied.

3/ an adjustment tariff rate is currently being applied for bleached and/or unbleached cotton fabrics that are plainly woven, 3-threaded or 4-threaded twill.

* Quota tariff rate and adjustment tariff rate are annually modified by the Ministry of Finance and Economy.